



**Brian J. Benison**  
Associate Director –  
Federal Regulatory

SBC Telecommunications, Inc.  
1401 I Street, N.W., Suite 1100  
Washington D.C 20005  
Phone: (202) 326-8847  
Fax: (202) 408-4801

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**VIA ELECTRONIC SUBMISSION**

Ms. Marlene H. Dortch  
Secretary  
Office of the Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

Re: **Memorandum of Ex Parte Presentation**  
**CC Docket No. 01-338, Review of the Section 251 Unbundling**  
**Obligations of Incumbent Local Exchange Carriers;**  
**CC Docket No. 96-98, Implementation of the Local Competition**  
**Provisions in the Telecommunications Act of 1996; and**  
**CC Docket No. 98-147, Deployment of Wireline Services Offering**  
**Advanced Telecommunications Capability**

Dear Ms. Dortch:

On October 31, 2002, Don Cain, Gary Phillips, Jim Lamoureux and Christopher Heimann representing SBC Communications, Inc. (SBC), met with Jordan Goldstein, senior legal advisor to Commissioner Michael J. Copps.

The purpose of the meeting was to discuss the competitive deployment and usage of switches as well as SBC's hot cut process in the context of the Commission's Triennial Review. The attached material was discussed during the course of the meeting.

Pursuant to Section 1.1206(b) of the Commission's rules, this letter and attachments are being electronically filed. I ask that this letter be recognized with the proceedings identified above.

Please call me should you have any questions.

Sincerely,

/s/ Brian J. Benison

Attachments

CC: Jordan Goldstein



# **Unbundled Switching, UNE - P & Market Transition**

October 31, 2002

# Switching & UNE-P Overview



- UNE-P harms to telecom sector are widespread
  - Wireline carriers, manufacturers & intermodal competitors
- Competitive switches are plentiful
  - Currently serving both residential and business customers
  - In large and small markets
- Intermodal competition is a reality
- FCC should
  - Remove unbundled switching from the national UNE list
  - Preclude states from reinstating unbundled switching

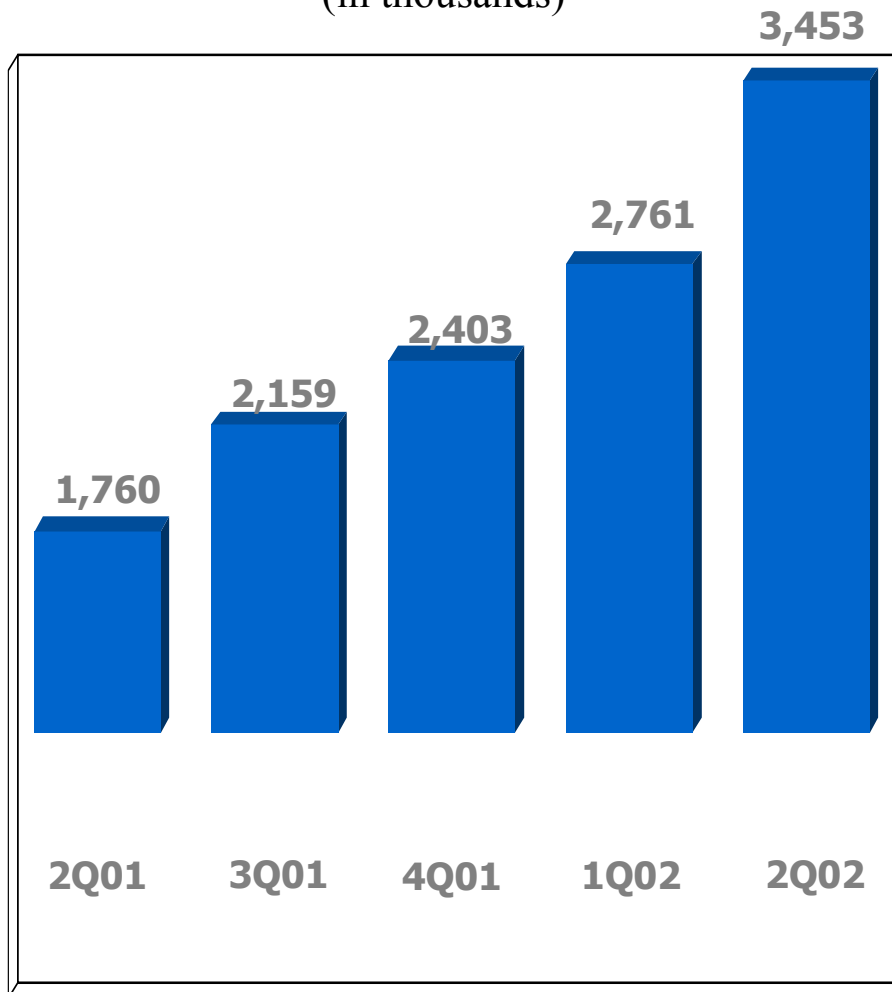
# UNE-P Proliferation



## SBC UNE-P Lines In Service

**2Q 2002**

(in thousands)

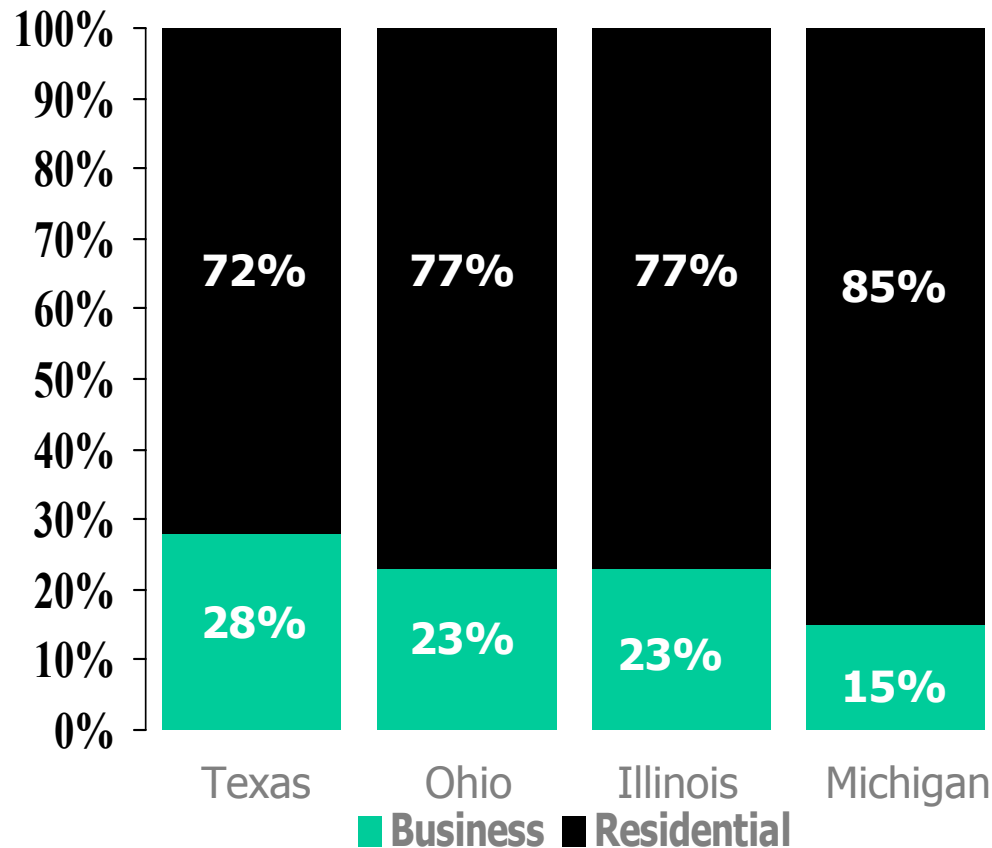


- Over the past year, UNE-P lines in service have doubled.
- As of 3Q02, SBC has lost approximately 4.2 million lines... nearly equivalent to losing the state of Michigan.

# Residential Customers Are the Primary Target for UNE-P in SBC Territories

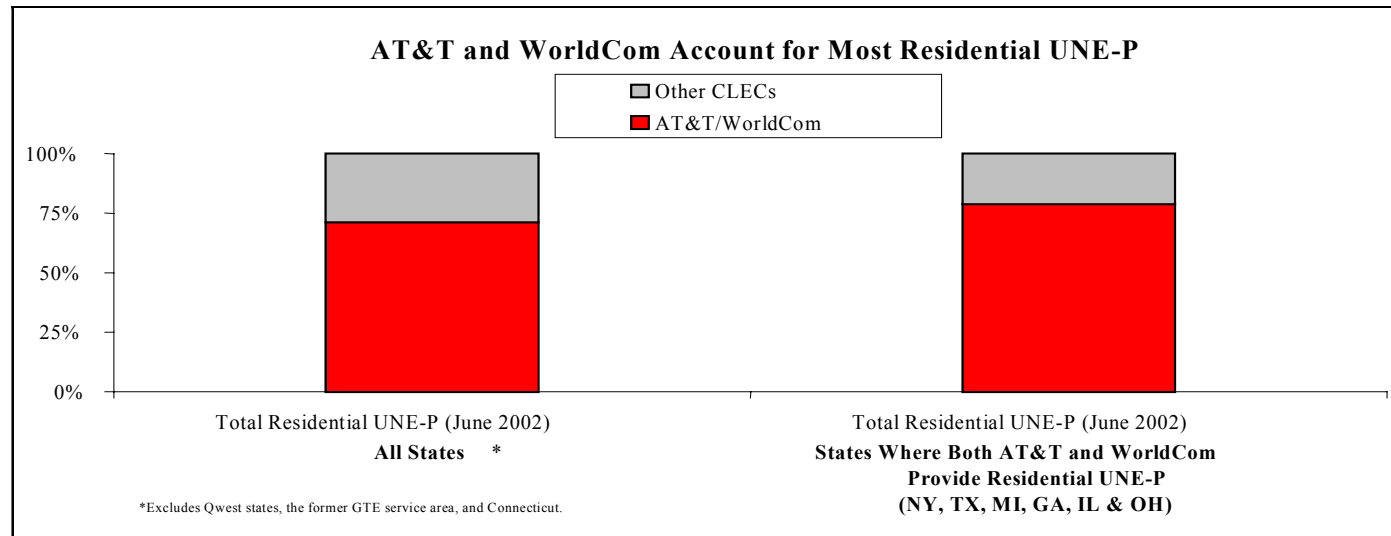


**SBC UNE-P Lines In Service  
SBC's Four Largest UNE-P States**



- Across SBC's 13 states, more than 70% of all UNE-P lines are residential
- In SBC's four largest UNE-P states, which have been targeted most aggressively by the large IXC's, residential customers represent an even higher percentage of total UNE-Ps.

# UNE-P Predominantly Used by the Two Largest IXC's



In the states where both provided UNE-P as of June 2002, they account for an even larger share of the UNE-P action – nearly 80 percent of residential UNE-P purchases to date.

# Claims that UNE-P is a Necessary Transitional Vehicle are Just a Smokescreen

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- In NY, ATT and WCom operate 28 switches. Interestingly, they serve over one million residential customers with UNE-P, but have not converted a single residential customer to their switches.
- In SBC territory no significant conversions have occurred.
- It would be illogical to use it as anything other than a parking lot
  - ATT getting 45% return on no capital investment.
- Many UNE-P CLECs, including Worldcom and Z-Tel, flat-out admit they have no plans to offer facilities-based service
- “[T]here is no empirical or theoretical basis for the argument that a new entrant must establish market share in advance of building facilities in order to have incentive to make investments necessary to enter a market.”

(Shelanski Reply Declaration, page 4)

# Negative Effects of UNE-P on Facilities-based Competition

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➤ Legg Mason wrote: “the more successful the [Worldcom’s Neighborhood] plan is, the more it will reduce the attractiveness of the telephony opportunity for cable.”

Legg Mason, WorldCom/MCI Bundled Phone Offer Challenges Rivals, Regulators at 2 (Apr. 23, 2002).

➤ “...current Federal telecom policy is fundamentally deflationary and unintentionally discourages investment and economic growth. The telecom/tech sector has gone from the propeller of the U.S. economy to an anchor to growth...”

(Precursor Group, October 2, 2001)

➤ Credit Suisse First Boston recently “turned pessimistic about the extent to which Cox . . . will generate money from offering local telephone service over its cable TV systems” due to “the long distance carriers’ use of UNE-P [that] has picked up speed of late.”

George Mannes, Crowds Wiring Phone-Growth Hopes from Cox , The Street.com (Sept. 19, 2002), <http://www.thestreet.com/tech/georgemannes/10043045.html> (citing Credit Suisse First Boston analyst Lara Warner).



# Negative Effects of UNE-P on Facilities-based Competition

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- The 10 states with the highest levels of residential UNE-P competition accounted for three-quarters of residential UNE-P growth over the past six months, but only a third of the growth in facilities-based residential lines.
- The 10 states with the highest levels of facilities-based residential competition accounted for 85 percent of growth in facilities-based residential lines, but only 16 percent of residential UNE-P growth.

# Competitive Switches Are Widely Deployed & Used

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- CLECs have deployed 1,300 circuit switches  
(Fact Report, II-1 & Appendix B)
  - 200+ CLECs of all sizes have deployed local circuit switches in the BOC regions (Fact Report, II-1)
- CLEC switches reach customers representing 86% of BOC access lines. (Fact Report, II-6)
- In addition to the circuit switches, more than 9,500 CLEC packet switches provide further competition (ALTS Local Competition Report 2002, page 16)

# Competitive Switches Serve Residential and Business Customers

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- Switches used to serve large business customers also serve mass-market customers (Fact Report, II-4)
- CLECs were serving about 3M residential lines, out of approximately 16-23 million total lines, using their own switches at EOY 2001 (Fact Report, II-4)

# Growing Cable Telephony Competition

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- Cable operators such as AT&T, Cablevision, Charter, RCN, Comcast and others provide telephony service to 2.2 million customers as of June, 2002
- Bill Schleyer of AT&T Broadband, “We finally have a national scale facilities based competitor to the ILEC. That is a very, very powerful position. . . . We’ll be taking a fair amount of share from [the ILECs] over the next few years.”  
(AT&T Reply comments in AT&T/Comcast merger)
- AT&T’s own cable telephony operations “now have 115 franchise areas with greater than 25% penetration including dozens of communities within our largest markets.” (AT&T’s 2Q02 Investor Conference Call)
- Over the past 6 months cable has added 600,000 new telephony subscribers
  - that’s an average of 100,000 per month, a 40% increase from year end 2001

# Growing Wireless Substitution



- As of February 2002, there were 130 million wireless subscribers. Up from 34 million at the end of 1995. (Fact Report, II-34)
- Two in five Americans have a mobile phone  
(Fact Report, II-34)
  - Commission's Sixth CMRS Report issued July , 2001 found the wireless phone has become a mass market device and that 3 in 10 users prefer wireless phone to their landline phone (Fact Report, II-37)

# Growing Wireless Substitution



- Yankee Group Report September 2002:
  - “Wireline networks... are the principal victims of mobile’s advance”
  - ~ 30% of personal calling minutes are now wireless
  - By 2006, the study predicts U.S. mobile subscribers will increase by 50% and will dominate personal calling, severely cannibalizing wireline minutes of use.
- The increasing trend toward the abandonment of landline connections seems to be a natural outgrowth of the advances in technology, lower pricing and more aggressive marketing by wireless companies.  
(Eastern Management Group)
- “We expect continued weakness in access lines, as substitution to wireless, cable telephony and broadband remains an issue.”  
(Morgan Stanley - July, 2002)

# Telecom Manufacturers, Employment Harmed by Flawed Unbundling Rules

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- Nortel's earnings report last week lifted total losses in the last 11 quarters to a staggering amount -- \$33 billion. And Lucent said on Friday that it planned a reverse split of its battered shares -- which closed at 68 cents each -- to keep its stock from being "delisted" by the New York Stock Exchange. *New York Times - October 21, 2002*
- On Friday, Tellabs said that its loss in the third quarter widened to \$91.1 million from \$49.5 million a year ago as revenues fell 36 percent to \$288 million. *New York Times - October 21, 2002*

# The FCC Should Develop a National Pre-emptive framework

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- Consistent with judicial precedent and fundamental economics, the FCC should make clear that excessive unbundling imposes societal costs.
- States lack jurisdiction over all inter-modal competitors and thus can not harmonize regulation.
- A patchwork of various state actions create uncertainty and impede investment.
- Rapid financial deterioration of the industry cannot tolerate inevitable process delays of further state proceedings.



# Conclusions -



- CLEC switches are serving customers virtually everywhere
- Intermodal competition is a reality and competes head-to-head with wireline carriers
- UNE-P undermines telecom investment impacting not only the carriers, but manufacturers as well
- FCC should
  - Remove unbundled switching from the national UNE list
  - Preclude states from reinstating unbundled switching



# SBC Hot Cuts

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# Overview: SBC's proven Hot Cut record facilitates use of competitive switching

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- Quality: SBC provisions hot cut orders on a timely basis, with minimal disruption to end users.
- Scalability: Moving forward, SBC has the capacity to meet any reasonably foreseeable increase in demand for stand alone unbundled loops at the same superior level of performance.
- Cost: Cost is not an impediment.



# Hot Cut Methods

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- SBC offers two alternatives for the provisioning of unbundled “hot cut” loops:
  - Coordinated Hot Cut (CHC) process.
    - Communication between CLEC & SBC during the process.
    - CLEC initiates start of cutover process.
    - SBC confirms completion of cutover with CLEC.
  - Frame due time (FDT) process.
    - Designated time agreed to by CLEC and SBC.
    - Clock initiates start of cutover process
    - No cutover charge



# Local Operation Processes

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- Process service requests that require manual intervention.
- Review CHC/FDT service orders prior to conversion.
- Coordinate resolution on problem orders.
- Coordinate communication between CLEC and SBC Network personnel on CHC conversions.



# Central Office Process

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- Central office technician manually disconnects an active loop that was connected to an SBC switch; reconnects at a cross-connect point that receives dial tone from the CLEC switch.
- This process is basic, fundamental work that is and has been performed on a daily basis in COs throughout SBC's region.
- There are in place today millions of operational cross connects – every one of which was placed by CO technicians in the regular course of their job responsibilities.
- Over 500,000 CHC/FDT unbundled loops have been provisioned, using these processes (June 2001 – May 2002).



# SBC Hot Cut Performance

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- SBC has a proven record of performance as the Commission has found in 271 proceedings and as evidenced by data filed in this proceeding.
- Proven historical response to changes/spikes in Hot Cut volumes within LOC/LSC staffing.
- Superior historical results for Hot Cuts support SBC's position that the LOC/LSC can handle reasonably foreseeable increase in demand.



# Cost is not a barrier

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- In CA, SBC calculated a weighted average charge for cutovers performed Jan-Sept 2002 (both FDT and CHC cutovers)
- The calculated weighted average charge was less than \$30.00





# Increase in Current Unbundled Loop Demand – LOC/LSC Responses

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- Use sophisticated force models to determine staffing requirements.
- Overtime
- Reallocation of resources from other product offerings.
- Hire and train additional personnel if needed.



# SBC CO Flexibility

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- During the 12 month period of June 1, 2001 through May 31, 2002 (Berringer-Smith Declaration, Par 36 & 38):
  - AIT required 38 FTE (Full Time Equivalent) CO technicians (out of a CO technician work force of 3,191) to provision 210,412 hot cut loops.
  - SWBT required 22 FTE CO technicians (out of a CO technician work force of 2,752) to provision the 79,378 CHC/FDT loops.
  - PB required 29 FTE CO technicians (out of a CO technician work force of 1,093) to provision approximately 282,123 hot cut loops.
- As these numbers indicate, a small portion of SBC Central Office workforce is involved in the hot cut process. This allows SBC to allocate additional resources, as needed, to meet any spike in demand.



# Increase in Current Unbundled Loop Demand – Central Office Response

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- SBC maintains flexibility with regard to staffing, making adjustments and reallocations of work force among central offices as necessary to support changes and/or spikes in work load volumes and staffing requirements.
- SBC can accommodate increases in hot cut activity in individual COs as well as on a regional basis.
- SBC has abundant experience in handling spikes in demand at individual COs, and is easily capable of accommodating those spikes, provided it receives adequate notice.
- Any reasonably foreseeable increase in hot cut demand that would result from the elimination of unbundled switching would be easily accommodated by SBC's Central Offices.



# Accommodate Increase – Using Overtime

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- Analysis indicates that to work the inventory of UNE-P lines received during the June 2001 – May 2002 and assume that those volumes would instead be ordered as CHC/FDT loops, the AIT region would have been able to work the 1,043,096 loops utilizing the current CO technician workforce with less than 6% (a little more than 2 hours per technician per week) overtime during this period.



# Accommodate Increase – Using Reallocation.

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- Any dramatic increase in hot cut orders can readily be handled.
- Redford-Detroit has the highest concentration of UNE-P lines in the AIT region going from 3,417 to 14,083 UNE-P loops – 312% increase June 2001 through May 2002.
- If those same UNE-P lines had instead been ordered as CHC/FDT loops, installation would have required approximately 2 additional FTE CO technicians to handle the work load. This office is staffed by 6-8 technicians, approximately a 20-30% increase.
- Given the 3191 CO technician base in the AIT region, such an increase most likely would have been accommodated through force reallocation.



# SBC Experience in Handling “Spikes” in Volume

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- SBC regularly experiences spikes in ordering activity at the start and end of the school year, as families and college students establish and disconnect telephone service as they move in and out of town.
- For example, during a three to four week period last fall, as the University of Michigan at Ann Arbor school year began, the Ann Arbor Main CO saw an increase in the regular work load of from approximately 150 retail orders for new service per day to 800 per day (a growth of about 433%).
- Staffing increased from 8 CO technicians to 15 technicians, all of whom worked overtime and staggered shifts to handle volumes in a timely manner, enabling Ameritech to satisfy its due date commitments.



# Project Managed Hot Cuts

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- No functional difference from non-project managed hot cuts.
- No factual basis to differentiate between project and non-project hot cuts.



# SBC Commitment

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- SBC's long-standing processes and procedures for the scaling of its resources to handle both sustained increases in volumes, as well as unanticipated spikes in those volumes, are designed to ensure that quality standards will continue to be met as the level of facilities based competition increases.





# Conclusion

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- Process is sound
- Results are great
- Process is scalable
- Cost is no impediment